

State of California
Consumer Power and Conservation
Financing Authority



On April 2nd, The CPUC released a ruling in the Procurement OIR presently before the commission. Last board meeting we provided a summary of that document outlining the key goals and policy point made in that ruling. It will be helpful to review those goals here. In addition, we have now created an outline that we think will serve as the basis for formulation of comments from the Power Authority to the CPUC in this critical proceeding.

Key Policy Issues and Objectives.

1. The role of the CPUC to ensure just and reasonable rates has not changed, regardless of all the other changes in the electric landscape.
2. The CPUC has a mandate to assure development of a diverse portfolio of energy supply in the state, including both efficiency improvements and renewable resources.
3. The previous Integrated Resource Planning process, including the Biennial Resource Plan Update was never formally discontinued.
4. Utility Procurement plans should incorporate:
 - a. DWR contracted quantities
 - b. CPA efforts to develop reserve capacity.
5. The proceeding will have a dual focus.
 - a. Short-Term Needs:
 - i. Milestones needed to ensure that the IOUs return to purchasing obligations by 1/1/03.
 - ii. Maximizing development of renewables as much as possible in the short-term with focus on the states short-term energy needs
 - b. Long-Term Needs
 - i. Utilities and Commission staff to begin integrated resource assessment
 - ii. Identification of new resource needs for cost-savings or reliability in a five-year time-frame
6. No affiliate transactions will be considered for the short-term
7. A balancing account approach with annual true-ups similar to fuel-adjustment accounts is preferred for cost recovery of additional net-short purchases
8. Input is requested on a policy framework for advance review and approval of purchases to minimize after-the-fact reasonableness changes.
9. Demand-side options should be considered and presented by the parties. This includes existing programs and new programs. The Commission notes, however, that demand programs are under consideration in R.00-10-002 and energy efficiency is being addressed in R.01-08-028.

10. Any new programs or products must be accompanied by detailed recommendations including how the PUC should judge the reasonableness of the program as compared to other options.
11. Net short procurement may begin earlier than 1/1/03 if utilities are ready.
12. DWR contracts will be assigned geographically essentially by point of delivery.

Draft Outline of CPA comments

There are two aspects to our comments. First, we may need to comment on the utilities and others recommendations on all aspects of their procurement. Some of the utilities have insinuated/stated, that they either won't be ready or don't want to return to procurement by 1/1/03 if ever.

The second aspect of our comments would be focused on what we think that the foundation, considerations, objectives, measurements and outcomes of the proceeding should be, regardless of what any other party to the proceeding says. This outline is an attempt to capture the beginning of that portion of our comments.

I. Importance of OIR Proceeding

- a. Provision of Electric Service at a crossroads
- b. Transition from past arrangement to future including definition of responsibilities critical
- c. Valuation and assignment of DWR contracts
- d. Transition back to Utility creditworthiness/procurement
- e. Renewable Portfolio Standard – who and how?

II. The Landscape has Changed

- a. Utilities do not own sufficient capacity of their own
- b. Much generation is in the hands of private developers
- c. FERC market processes are in place
- d. The ISO exists
- e. CPA exists
- f. Policy question – Should the state own generation?
- g. Policy Question - Should the state own/finance peakers for reliability?
- h. Policy questions – How big a role for demand response
- i. Policy questions – How important is Security after 9/11
- j. Policy Questions – How big a role for Distributed Generation
- k. Cities, Universities, Businesses looking to shape load, conserve load and/or self-provide electric needs
- l. A simple effort to return to an old world which no longer exists will be inadequate

III. Importance of working with Other Entities that Have Other Elements in the Process

- a. Creation and mandates of the CPA**
 - i. CPA to convene proceeding to work on reserve levels with other agencies as update to ERIP**
- b. Many elements will factor into new procurement portfolio**
 - i. DWR contracts**
 - ii. Renewable portfolio resources**
 - iii. Additional long, medium and short-term contracts**
 - iv. Existing interruptible programs**
 - v. New Load Management/Demand Response programs from CPA**
 - vi. New tariffs that may come from real-time meters**
 - vii. Conservation efforts from all sources – CEC programs PUC programs CPA programs, 20/20 leftovers, rate shock, etc.**
- c. Market design at CA ISO will affect how resources see opportunities**
- d. FERC Standard Market Design – continuing developments and changes will affect how resources see the market and how California interfaces with neighboring electricity markets.**

IV. Need for Certainty and Speed

- a. Utility Solvency is critical**
- b. Renewables Financing depends on long-term agreements**
- c. All New power plants depend on long-term contracts/financing**
- d. After the fact rate review must be limited/non-existent**
- e. Certainty in rates is sometimes better than the lowest price**
- f. The longer this takes the more unstable the market becomes and the longer it will take for any new supply to develop – True for both renewable resources and traditional resources**

V. Recommendations

- a. Speed and timing is critical**
- b. Create certainty**
- c. Allow significant role for demand response**
 - i. Programs are different than in the past**
 - ii. Aggregation critical and helpful**
 - iii. Programs exceed utility silo boundaries**
 - iv. Demand programs cleaner**
 - v. Demand programs more flexible**
 - vi. Demand programs scalable**
 - vii. Demand programs require less lead time and shorter commitments**
 - viii. Demand can be less costly**
- d. Allow significant role for DG**
 - i. Simplify interconnection**
 - ii. Reduce barriers**
 - iii. Reduce costs imposed by IOUs**

- e. Explore/Allow for role of state to own capacity to manage peak markets**
 - i. Needle peaks – less than 200 hours/year may not be effectively managed by competition**
 - ii. State involvement and/or ownership may be best way to ensure competitive market in the rest of the 8560 hour per year**
- f. Renewables – what does the future look like**
 - i. State policy objectives**
 - ii. How this procurement proceeding should play into that objective**
 - iii. How the CPA intends to play into that objective**
- g. The CPA should finance targeted reliability projects and the IOUs should pay for them.**

The intent of this outline is to stimulate discussion among the board members to create a sense of policy and direction for staff in drafting the comments in this important proceeding.